

221628Z Nov 00

CONFIDENTIAL PTQ4894

PAGE 01 HARARE 06566 01 OF 04 221629Z  
ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DATE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	FAAE-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	L-00	VCE-00	AC-01	NSAE-00	OMB-01	OPIC-01	PA-00
	PM-00	PRS-00	ACE-00	P-00	SP-00	SSO-00	STR-00
	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02	G-00	NFAT-00
	SAS-00	/009W					

-----A2C816 221630Z /38

FM AMEMBASSY HARARE  
TO SECSTATE WASHDC PRIORITY 7684  
INFO DEPT OF TREASURY WASHDC  
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
USDOC WASHDC  
NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 HARARE 006566

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC,  
TREASURY FOR ED BARBER AND BARAK HOFFMAN  
DOC FOR 4510 HENDERSON  
NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH  
STATE PASS USTR FOR ROSA WHITTAKER

E.O. 12958: DECL: 11/22/08

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [BEXP](#) [ZI](#)

SUBJECT: ZIMBABWE'S 2001 BUDGET; A REALISTIC, AND TOO  
CONFIDENTIAL

PAGE 02 HARARE 06566 01 OF 04 221629Z  
OPTIMISTIC, EFFORT

REF: A) 1999 HARARE 6723

CLASSIFIED BY AMBASSADOR MCDONALD. REASONS 1.5 (B) AND (D)

-----  
SUMMARY  
-----

¶11. (C) ON NOVEMBER 16 ZIMBABWE'S MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT, SIMBA MAKONI, ANNOUNCED ZIMBABWE'S 2001 BUDGET IN A READING BEFORE PARLIAMENT. IN OUR OPINION THE BUDGET HONESTLY DEPICTS THE SEVERE ECONOMIC CRISIS THE NATION IS TRAPPED IN, IS CREATIVE IN ITS ATTEMPTS TO ADDRESS PROBLEMS, BUT WILL FAIL TO SLASH THE DEFICIT AS PROJECTED. (IT SETS DEFICIT TARGETS OF 15 PERCENT OF GDP IN 2001, 9 PERCENT IN 2002 AND 4 PERCENT IN 2003.) DOMESTICALLY, THE BUDGET HAS RECEIVED MIXED REVIEWS. ON THE ONE HAND MANY ZIMBABWEANS ARE APPRECIATIVE OF THE HONEST ASSESSMENT OF THE CURRENT ECONOMIC CRISIS. ON THE OTHER HAND, THERE IS SERIOUS DOUBT THAT SOME OF THE CREATIVE MEASURES HAVE ANY CHANCE OF BEING IMPLEMENTED OR FOLLOWED THROUGH IN THE CURRENT POLITICALLY-DRIVEN CLIMATE OF PRESIDENT MUGABE. ANOTHER REASON BEHINDS ITS POSITIVE RECEPTION IN SOME QUARTERS IS THE UNPRECEDENTED EXTENSIVE CONSULTATION PROCESS THE FINANCE MINISTER INSTITUTED DURING ITS DRAFTING.

¶12. (SBU) THE BUDGET PROJECTS TOTAL EXPENDITURES OF ZIM \$224 BILLION (APPROXIMATELY U.S. \$4.7 BILLION, 2.6 BILLION OF WHICH IS INTEREST ON THE DEBT), A 57 PERCENT INCREASE FROM  
CONFIDENTIAL

PAGE 03 HARARE 06566 01 OF 04 221629Z  
THIS YEAR'S REVISED OUTLAY OF ZIM \$143 BILLION (APPROXIMATELY U.S. \$2.6 BILLION). REVENUE OF ZIM \$140 BILLION IS PROJECTED, LEAVING A BUDGET DEFICIT OF ZIM \$86 BILLION (U.S. \$1.6 BILLION), OR 15.5 PERCENT OF PROJECTED 2001 GDP.

¶13. (C) HIGHLIGHTS OF THE 2001 BUDGET INCLUDE THE CONTINUATION OF THE THREE PERCENT HIV/AIDS LEVY, A CUT IN THE TOBACCO LEVY FROM 2.5 TO 1.5 PERCENT, INTRODUCTION OF A COMPUTERIZED CASH-BUDGET SYSTEM AIMED AT STOPPING BUDGET OVERRUNS, A ZIM \$1.3 BILLION ALLOCATION FOR LAND RESETTLEMENT (ABOUT U.S. \$23.6 MILLION), A 13 PERCENT DECREASE FOR DEFENSE SPENDING (IN NOMINAL TERMS), AND AN 18 PERCENT NOMINAL INCREASE FOR HEALTH SPENDING. THE BUDGET ALSO INTRODUCES A CAP ON THE CIVIL SERVICE WAGE BILL, FROM THE CURRENT 16.7 PERCENT OF GDP DOWN TO 12 PERCENT. HOW THIS WILL BE ACHIEVED IS NOT SPELLED OUT.

¶14. (C) OVERALL WE ASSESS THE BUDGET AS A GOOD EFFORT CONSIDERING THE ECONOMIC, SOCIAL AND POLITICAL CONTEXT. ON THE POSITIVE SIDE IT IS NOT A HEAD-IN-THE-SAND EFFORT, AND IT LAYS THE BASIS FOR AN ATTEMPT AT REOPENING DISCUSSIONS WITH

THE INTERNATIONAL FINANCIAL INSTITUTIONS. ON THE NEGATIVE SIDE IT FALLS SHORT IN ADDRESSING THE PROBLEM OF HOW INFLATION WILL BE TAMED, IT ASSUMES THAT FISCAL DISCIPLINE WILL TAKE ROOT, AND IT IS EXCESSIVELY OPTIMISTIC IN PROJECTING REVENUE IN A RAPIDLY SHRINKING ECONOMY, THEREBY, UNDERESTIMATING, IN OUR OPINION, NEXT YEAR'S DEFICIT. THE MINISTERIAL ALLOCATIONS, WHICH ARE ALL REDUCED IN REAL TERMS AFTER FACTORING IN INFLATION WILL RESULT, IN OUR OPINION, IN ANOTHER SUPPLEMENTAL BUDGET BEING REQUIRED SOMETIME IN THE SECOND HALF OF NEXT YEAR. IN ADDITION AND IN THE END, ACTIONS MUST MATCH THE RHETORIC AND WORDS. WE ARE SKEPTICAL

CONFIDENTIAL

PAGE 04 HARARE 06566 01 OF 04 221629Z  
THAT MAKONI WILL GET OR ACHIEVE ALL HE AMBITIOUSLY SETS OUT TO ACCOMPLISH. END SUMMARY.

-----  
THE EXTENT AND CAUSES OF THE ECONOMIC CRISIS  
-----

15. (SBU) INQS BUDGET SPEQ MINISTER MAKONI WAS BLUNT IN HIS ASSESSMENT AND LISTING OF THE CAUSES OF ZIMBABWE'S ECONOMIC CRISIS, PAINTING A STARK PICTURE OF DAY-TO-DAY HARDSHIP FOR THE AVERAGE ZIMBABWEAN. HE ADMITTED THAT THE CURRENT HARSH CONDITIONS HAD TURNED ZIMBABWE INTO A CARICATURE OF COLONIAL-ERA POVERTY AND OPPRESSION; WITH DEEPENING POVERTY, GROWING UNEMPLOYMENT, SHORTER WORKING HOURS, RISING COSTS AND A DECLINE IN THE DELIVERY OF SOCIAL SERVICES. OTHER SYMPTOMS OF THE CRISIS CITED IN THE SPEECH INCLUDE THAT MANY FAMILIES CAN NO LONGER AFFORD MORE THAN ONE MEAL A DAY, THAT WORKERS - UNABLE TO PAY TRANSPORT COSTS - WALK OR CYCLE TO THEIR PLACE OF EMPLOYMENT, FEWER CAN MAKE VISITS TO THEIR RELATIVES IN THE RURAL AREAS, AND FAMILIES AND SOCIETY AS A WHOLE ARE INCREASINGLY FAILING TO CARE FOR THE NEEDY. THE CAUSES OF THE ECONOMIC CRISIS WERE OUTLINED AS:

- O "UNCERTAINTY" OVER SEIZURES OF WHITE-OWNED LAND;

CONFIDENTIAL

CONFIDENTIAL PTQ4897

PAGE 01 HARARE 06566 02 OF 04 221629Z  
ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DOTE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	FAAE-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	L-00	VCE-00	AC-01	DCP-01	NSAE-00	OMB-01	OPIC-01
	PA-00	PM-00	PRS-00	ACE-00	P-00	SP-00	IRM-00
	SSO-00	STR-00	USIE-00	FMP-00	R-00	PMB-00	DSCC-00
	DRL-02	G-00	NFAT-00	SAS-00	/010W		

-----A2C82E 221630Z /38

P 221628Z NOV 00  
FM AMEMBASSY HARARE  
TO SECSTATE WASHDC PRIORITY 7685  
INFO DEPT OF TREASURY WASHDC  
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
USDOC WASHDC  
NSC WASHDC

C O N F I D E N T I A L SECTION 02 OF 04 HARARE 006566

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC,  
TREASURY FOR ED BARBER AND BARAK HOFFMAN  
DOC FOR 4510 HENDERSON  
NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH  
STATE PASS USTR FOR ROSA WHITTAKER

E.O. 12958: DECL: 11/22/08  
TAGS: EFIN ECON PGOV BEXP ZI  
SUBJECT: ZIMBABWE'S 2001 BUDGET; A REALISTIC, AND TOO  
CONFIDENTIAL

PAGE 02 HARARE 06566 02 OF 04 221629Z  
OPTIMISTIC, EFFORT

- O "PERCEPTIONS" OF THE LACK OF THE RULE OF LAW;
- O THE COST OF MILITARY INVOLVEMENT IN THE CONGO;
- O INCREASING CORRUPTION; AND,
- O THE GROWING FREQUENCY AND MAGNITUDE OF UNBUDGETED EXPENDITURES.

-----  
BUDGET HIGHLIGHTS  
-----

16. (SBU) KEY PROPOSALS CONTAINED IN THE 2001 BUDGET ARE:

- = TOTAL GOVERNMENT SPENDING TO INCREASE 57 PERCENT (NOMINAL TERMS);
- = MORE THAN HALF THIS SPENDING IS INTEREST ON NATIONAL DEBT;

= TOTAL MINISTERIAL SPENDING DROPS ABOUT 20 PERCENT IN NOMINAL TERMS;  
 = IN REAL TERMS (ASSUMING 50 PERCENT INFLATION) THIS AMOUNTS TO MORE THAN A 50 PERCENT DROP IN GOVERNMENT PROGRAM SPENDING;  
 = OVERALL THE BUDGET IS PRO-CONSUMER AND PRO-BUSINESS (LOW & MIDDLE INCOME WORKERS GET TAX RELIEF AND BUSINESS IS GENERALLY LESS-HEAVILY TAXED);  
 = THE CORPORATE TAX RATE IS REDUCED FROM 35 TO 30 PERCENT;  
 = A SPECIAL BREAK FOR MINING COMPANIES (TO ENCOURAGE INVESTMENT) REDUCES THEIR TAX RATE TO 25 PERCENT;  
 = ZIM \$1.3 BILLION IS ALLOCATED FOR LAND RESETTLEMENT (ABOUT U.S. \$23 MILLION)  
 = CIVIL SERVICE WAGE COSTS ARE CAPPED AT 12 PERCENT OF GDP  
 CONFIDENTIAL

PAGE 03 HARARE 06566 02 OF 04 221629Z  
 V.S. THIS YEAR'S ESTIMATED 16.7 PERCENT COST (SPECIFICS OF IMPLEMENTATION ARE NOT PROVIDED);  
 = THE DEFENSE DROP OF 13.5 PERCENT HINGES ON "THE ANTICIPATED POSITIVE OUTCOME OF INITIATIVES TO BRING PEACE TO THE DRC";  
 = PROJECTED REVENUE (AT ZIM \$140 BILLION OR ABOUT U.S. 2.55 BILLION) INCREASES ARE FUNDED PRIMARILY BY A SURGE IN INCOME TAX (82 PERCENT) AND CUSTOMS DUTIES AND SALES TAXES (42 PERCENT);  
 = INTERNATIONAL DEVELOPMENT ASSISTANCE IS BUDGETED AT ZERO;  
 = CAPITAL EXPENDITURE IS AGAIN REDUCED;  
 = THERE ARE NO SPECIFIC MEASURES IN THE NEW BUDGET TO COMBAT HIGH INFLATION/INTEREST RATES;  
 = A COMPUTERIZED CASH-BUDGET SYSTEM IS INTRODUCED TO CURB OVER-BUDGET SPENDING (CALLED THE PUBLIC FINANCE MANAGEMENT SYSTEM), AND;  
 = THE BUDGET DEFICIT IS VERY CONSERVATIVELY ESTIMATED TO BE ONLY 15.5 PERCENT OF GDP IN 2001.

17. (SBU) MINISTRY-BY-MINISTRY AND TOTAL YEAR 2001 NOMINAL SPENDING INCREASES FROM REVISED 2000 AMOUNTS ARE:

MINISTRY	PERCENT INCREASE
PRESIDENT&CABINET	NIL
PARLIAMENT	5 PERCENT
LABOR&SOCIAL WELFARE	12 PERCENT
RURAL&WATER RESOURCES	NIL
DEFENSE	-13.5 PERCENT CONFIDENTIAL

PAGE 04 HARARE 06566 02 OF 04 221629Z  
 FINANCE 282 PERCENT  
 LAND&AGRICULTURE 43 PERCENT  
 EDUCATION&CULTURE 2 PERCENT  
 MINES&ENERGY 6 PERCENT  
 TRANSPORT&COMMUNICA. 63 PERCENT  
 INDUSTRY&INT'L TRADE 26 PERCENT  
 LOCAL GOVT&HOUSING -11 PERCENT  
 HIGHER EDUC&TECHNOLOGY 5.6 PERCENT  
 HEALTH&CHILD WELFARE 18 PERCENT  
 FOREIGN AFFAIRS -9 PERCENT  
 HOME AFFAIRS -5 PERCENT

TOTAL BUDGET INCREASE 36 PERCENT  
 -OF WHICH-  
 GOODS&SERVICES INCREASE 13 PERCENT  
 TRANSFER PAYMENTS 72 PERCENT

18. (SBU) THE VERY LARGE FINANCE MINISTRY INCREASE OF 282 PERCENT IS CAUSED BY A SWELLING OF THE UNALLOCATED RESERVE LINE ITEM FROM ZIM \$2.3 BILLION TO ZIM \$11.8 BILLION (APPROXIMATELY U.S. \$214 MILLION). THE RESERVE IS THE GOZ CONTINGENCY AND EMERGENCY FUND, AND HAS BEEN INCREASED SUBSTANTIALLY TO HAVE AN IDENTIFIABLE SOURCE OF FUNDS FOR EMERGENCIES OR NATURAL DISASTERS (LIKE CYCLONE ELINE THIS YEAR) TO DISPENSE TO APPROPRIATE MINISTRIES VIA THE NEW

CONFIDENTIAL

CONFIDENTIAL PTQ4899

PAGE 01 HARARE 06566 03 OF 04 221630Z  
 ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DOTE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	FAAE-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	L-00	VCE-00	AC-01	NSAE-00	OMB-01	OPIC-01	PA-00
	PM-00	PRS-00	ACE-00	P-00	SP-00	SSO-00	STR-00
	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02	G-00	NFAT-00
	SAS-00	/009W					

-----A2C84C 221630Z /38

P 221628Z NOV 00  
 FM AMEMBASSY HARARE  
 TO SECSTATE WASHDC PRIORITY 7686  
 INFO DEPT OF TREASURY WASHDC  
 SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

CONFIDENTIAL SECTION 03 OF 04 HARARE 006566

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC,  
TREASURY FOR ED BARBER AND BARAK HOFFMAN  
DOC FOR 4510 HENDERSON  
NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH  
STATE PASS USTR FOR ROSA WHITTAKER

E.O. 12958: DECL: 11/22/08

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [BEXP](#) [ZI](#)

SUBJECT: ZIMBABWE'S 2001 BUDGET; A REALISTIC, AND TOO  
CONFIDENTIAL

PAGE 02 HARARE 06566 03 OF 04 221630Z  
OPTIMISTIC, EFFORT

COMPUTERIZED CASH BUDGET ACCOUNTING/PAYMENT SYSTEM. THE LAND AND AGRICULTURE BUDGET INCREASE (FROM ZIM \$2.8 TO \$4 BILLION) IS CAUSED BY A SIX-FOLD INCREASE IN THE ALLOCATION OF \$1.3 BILLION FOR THE LAND RESETTLEMENT PROGRAM. (THOUGH THE U.S. \$23 MILLION EQUIVALENT FALLS FAR SHORT OF THE FUNDS NEEDED TO PAY FOR EVEN A SMALL PORTION OF THE ACREAGE TO BE SEIZED, OR THE INFRASTRUCTURE, INPUTS OR OTHER NEEDS OF THE RESETTLED LAND-POOR.) THE TRANSPORT AND COMMUNICATION INCREASE OF 63 PERCENT IS CAUSED BY A ZIM \$900 MILLION ALLOCATION FOR ROAD MAINTENANCE, A SPENDING PRIORITY IGNORED IN RECENT YEARS AND CONSIDERED NECESSARY BY THE FINANCE MINISTER TO KEEP THE ZIMBABWE'S HIGHWAYS AND ROAD CROSSINGS USABLE BY COMMERCE. THE VERY LARGE TRANSFER PAYMENT INCREASE OF 72 PERCENT SHOULD BE NOTED (FROM ZIM \$75 TO \$130 BILLION), AS IT IS NON-DISCRETIONARY PAYOUT FOR INTEREST, PENSIONS AND WAR VET ANNUITIES.

-----  
GOVERNMENT REVENUE  
-----

[¶](#) 9. (SBU) TOTAL GOVERNMENT REVENUES ARE PROJECTED TO GROW 55 PERCENT TO ZIM \$140.3 BILLION (OR ABOUT U.S. \$2.55 BILLION, A 6 PERCENT GROWTH RATE IN U.S. DOLLAR TERMS FROM LAST YEAR) FROM ZIM \$90.2 BILLION. TAXES ON INCOME AND PROFITS, THAT MAKE UP A LITTLE OVER HALF OF 2001 REVENUE, ARE SLATED TO GROW BY 71 PERCENT. GIVEN THAT THE GROSS DOMESTIC PRODUCT IS SIMULTANEOUSLY PROJECTED TO SHRINK BY ABOUT 3 PERCENT IN THE SAME BUDGET, WE VIEW THE REVENUE TARGET AS BEING EXTREMELY  
CONFIDENTIAL

PAGE 03 HARARE 06566 03 OF 04 221630Z  
OPTIMISTIC, THE MORE SO AS TAXES FOR LOW AND MIDDLE INCOME EARNERS WERE ADJUSTED DOWNWARD TO BOOST CONSUMER DEMAND.

[¶](#) 10. (C) THE BUDGET STATES THAT INTERNATIONAL AID GRANTS WILL BE ZERO. IT ALSO PROJECTS THAT THE DISPOSAL OR PRIVATIZATION OF STATE-OWNED COMPANIES SHOULD EARN ZIM \$22 BILLION (ABOUT U.S. \$400 MILLION) IN 2001. WE QUESTION IF SUCH AN AGGRESSIVE ASSET SALES PROGRAM CAN BE CARRIED OUT NEXT YEAR, AND IF THE EXPECTED PROCEEDS TOTAL IS REALISTIC GIVEN THE CONDITION OF NEARLY ALL OF ZIMBABWE'S PARASTATAL COMPANIES (BALANCE SHEETS EXTREMELY IN THE RED AND DILAPIDATED/OUTMODED ASSETS), AND ZIMBABWE'S EXTREMELY POOR TRACK RECORD TO DATE IN SELLING-OFF STATE ASSETS. ALSO OF NOTE IS THE FACT THAT THE FINANCE MINISTER APPLIES THE PROCEEDS OF PRIVATIZATION TO THE PAYDOWN OF GOVERNMENT DEBT. PREVIOUSLY THE GOVERNMENT HAS ALWAYS STATED THAT THE PROCEEDS WILL GO SOLELY TOWARDS INDIGENIZATION.

[¶](#) 11. (C) THE MINISTER ALSO MENTIONED IN HIS SPEECH THAT THE GOVERNMENT IS OWED "HANDSOME AMOUNTS BY BENEFICIARIES OF PROGRAMS SUCH AS THE WAR VETERANS COMPENSATION FUND, THE GOVERNMENT HOUSING SCHEME, THE GRAIN LOAN SCHEME, COMMODITY IMPORT PROGRAMS AND THE EARLY INDIGENIZATION FUNDS. EFFORTS WILL BE MADE, THEREFORE, TO COLLECT THESE MONIES." ALL THE FOREGOING ARE CASES OF BLATANT LARGE-SCALE THEFT AND CORRUPTION AT THE HIGHEST LEVELS OF LEADERSHIP, AND WHAT, IF ANY, PROGRESS IS MADE ON RECOVERY OR PROSECUTION WILL BE WORTHY OF OBSERVATION. (EMBASSY COMMENT: WE SUSPECT THAT THE FINANCE MINISTRY'S EFFORTS TO DELVE INTO THE MURKY CORRUPTION REALM WILL GO NOWHERE IN THE PRESENT ENVIRONMENT. END COMMENT.) THE LION'S SHARE OF THE REMAINING BUDGET INCOME IS  
CONFIDENTIAL

PAGE 04 HARARE 06566 03 OF 04 221630Z  
DERIVED FROM SALES TAX AND CUSTOMS AND EXCISE DUTIES. THESE ARE SLATED TO GROW BY 48 PERCENT. AGAIN IN A HIGH INFLATION, NEGATIVE GDP GROWTH, ENVIRONMENT AND, WITHOUT RATE INCREASES, WE DO NOT UNDERSTAND HOW SUCH REVENUE GROWTH WILL BE ACHIEVED. AGAIN, THE IMPLICATION IS THAT A MUCH HIGHER DEFICIT WILL LIKELY ENSUE.

-----  
[¶](#) 12. (C) FUNCTIONAL BREAKDOWN OF 2001 EXPENDITURE:

= INTEREST: IS SCHEDULED TO RISE IN PERCENTAGE TERMS FROM 32 PERCENT OF THE BUDGET IN 2000 TO ABOUT 41 PERCENT NEXT YEAR. THE INTEREST BILL REMAINS NOMINALLY THE SAME DESPITE THE NEED TO FINANCE A VERY LARGE DEFICIT, BECAUSE THE GOZ INTENDS TO RESTRUCTURE ITS DEBT BY CONVERTING SOME TO LONG TERM BONDS (WITH A REVERSE YIELD CURVE). WE QUESTION IF THE ANTICIPATED SAVINGS WILL BE REALIZED. (THE DEFICIT NEXT YEAR IS PROJECTED TO BE ABOUT ZIM \$83 BILLION, OR ABOUT U.S. 1.6 BILLION AT CURRENT RATES. AT A NOTIONAL INTEREST RATE OF 50 PERCENT, THE INTEREST ALONE ON THE NEW DEBT IS ABOUT U.S. \$2 MILLION PER DAY.)

= CIVIL SERVICE COSTS: WAGES, SALARIES AND ALLOWANCES NEARLY DOUBLED THIS YEAR FROM THE ORIGINAL 2000 BUDGET AMOUNT OF ZIM

CONFIDENTIAL

CONFIDENTIAL PTQ4903

PAGE 01 HARARE 06566 04 OF 04 221630Z  
ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DOTE-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	FAAE-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	ITC-01
	L-00	VCE-00	AC-01	NSAE-00	OMB-01	OPIC-01	PA-00
	PM-00	PRS-00	ACE-00	P-00	SP-00	SSO-00	STR-00
	USIE-00	FMP-00	PMB-00	DSCC-00	DRL-02	G-00	NFAT-00
	SAS-00		/009W				

-----A2C864 221630Z /38

P 221628Z NOV 00  
FM AMEMBASSY HARARE  
TO SECSTATE WASHDC PRIORITY 7687  
INFO DEPT OF TREASURY WASHDC  
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
USDOC WASHDC  
NSC WASHDC

CONFIDENTIAL SECTION 04 OF 04 HARARE 006566

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC,  
TREASURY FOR ED BARBER AND BARAK HOFFMAN  
DOC FOR 4510 HENDERSON  
NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH  
STATE PASS USTR FOR ROSA WHITTAKER

E.O. 12958: DECL: 11/22/08

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [BEXP](#) [ZI](#)

SUBJECT: ZIMBABWE'S 2001 BUDGET; A REALISTIC, AND TOO  
CONFIDENTIAL

PAGE 02 HARARE 06566 04 OF 04 221630Z  
OPTIMISTIC, EFFORT

\$27.6 BILLION TO ABOUT ZIM \$54 BILLION, AFTER PRESIDENT MUGABE IN JANUARY UNILATERALLY GRANTED RAISES AVERAGING NEARLY 90 PERCENT TO THE ENTIRE CIVIL SERVICE. (THE 2000 WAGE BILL IS ABOUT U.S. \$1 BILLION AT CURRENT EXCHANGE RATES, OR A PER EMPLOYEE AVERAGE OF U.S. \$6,200.) MINISTER MAKONI'S PLEDGE TO KEEP THE CIVIL SERVICE WAGE BILL TO ABOUT 12 PERCENT OF GDP IN 2001 (V.S. 16.7 PERCENT THIS YEAR) MEANS THAT THE 2001 WAGE TOTAL WILL BE ABOUT ZIM \$65 BILLION. THIS IS AN INCREASE IN NOMINAL TERMS OF ONLY ABOUT 18 PERCENT, AND IT IS HIGHLY DOUBTFUL THAT ZIMBABWE'S 161,000 CIVIL SERVANTS, MANY OF WHOM ARE NEARLY ALL LOYAL RULING PARTY SUPPORTERS, WILL ACCEPT SUCH A MEAGER SALARY INCREASE IN TIMES OF HIGH INFLATION.

= CAPITAL SPENDING: CAPITAL EXPENDITURE HAS AGAIN DECLINED AS A PERCENTAGE OF GOVERNMENT EXPENDITURE TO ONLY 4.6 PERCENT OF THE TOTAL (IN 1999 IT WAS 12 PERCENT, IN 2000 - 8 PERCENT). THE AMOUNT IS ZIM \$10 BILLION, VERSUS THE REQUIREMENT, AT LEAST ACCORDING TO THE FINANCE MINISTER, OF \$75 BILLION. THE ZIM \$10 BILLION IS ALLOCATED AS FOLLOWS:

- \$1.3 BILLION FOR LAND RESETTLEMENT PROGRAM (V.S. \$200 MILLION IN THE 2000 BUDGET)
- \$1 BILLION IN A REVOLVING CREDIT FUND FOR SMALL AND MEDIUM INDIGENOUS BUSINESSES
- \$500 MILLION TO REPAIR CYCLONE ELINE DAMAGE
- \$900 MILLION FOR ROADS UPKEEP
- \$500 MILLION PROVISION TO MEET CALLED-UP GOZ GUARANTEES OF PARASTATALS

CONFIDENTIAL

PAGE 03 HARARE 06566 04 OF 04 221630Z

-----  
COMMENT  
-----

[¶](#)12. (C) OVERALL, THIS BUDGET IS PROBABLY THE MOST HONEST AND

THOUGHTFUL THAT HAS BEEN TABLED IN ZIMBABWE'S 20 YEARS OF INDEPENDENCE. A LARGE NUMBER OF CONSTITUENCIES WERE CONSULTED IN ITS FORMULATION, AND IT ALSO LOOKED CAREFULLY BACK ON PREVIOUS BUDGETS, RESURRECTING IDEAS CONSIDERED WORTHWHILE. FOR EXAMPLE, THE CASH BUDGETING SYSTEM WAS FIRST PROPOSED IN THE 1994 BUDGET BY THEN FINANCE MINISTER CHAMBATI. IT COURAGEOUSLY OUTLINES THE PRINCIPAL CAUSES, AND SOME OF THE HARSH CONSEQUENCES, OF THE CURRENT ECONOMIC CRISIS. ITS ACTION INITIATIVES ARE ALL GOOD. HOWEVER, THE BUDGET IS ALSO A COMPROMISE, ON BOTH THE POLITICAL AND ECONOMIC FRONTS. IT CONTAINS A CONSIDERABLE DOSE OF HOPE OVER EXPERIENCE, IN BOTH ITS REVENUE PROJECTIONS AND IN ITS BLITHE ASSUMPTION THAT FISCAL DISCIPLINE WILL BECOME INSTITUTIONALIZED. THE LATTER ASSUMPTION IS A KEY ONE DESERVING MORE SKEPTICAL ATTENTION. JADED SENIOR CIVIL SERVANTS TOLD THE ECONOFF THAT WHAT HAS NOT OCCURRED IN 20 YEARS (GOZ FISCAL DISCIPLINE), WILL NOT LIKELY OCCUR IN YEAR 121. (WE SUSPECT A SUPPLEMENTAL BUDGET REQUEST WILL COME FORWARD SOMETIME IN THE THIRD QUARTER NEXT YEAR.)

113. (C) THIS IS ESPECIALLY SO GIVEN THE HARD ECONOMIC TIMES, ONGOING POLITICAL GAMESMANSHIP AIMED AT WINNING VOTER'S ALLEGIANCE, AND NO EVIDENCE AS YET THAT ZIMBABWE'S HARD TIMES HAVE BOTTOMED OUT. THE FINANCE MINISTER DOES NOT PREDICT TURNAROUND UNTIL THE THIRD OR FOURTH QUARTER OF 2001. WE  
CONFIDENTIAL

PAGE 04 HARARE 06566 04 OF 04 221630Z  
PREDICT THAT THE NEXT SIX TO TWELVE MONTHS HERE WILL BE THE WORSE THAT ZIMBABWE, OR FOR THAT MATTER RHODESIA, HAS EVER EXPERIENCED. THE HARD CURRENCY SHORTAGE WILL WORSEN, BUSINESS CLOSURES WILL ACCELERATE, WITH ATTENDANT JOB LOSSES AND SHORTAGES OF BOTH DOMESTIC AND IMPORTED GOODS. IF THE TURNAROUND DOES OCCUR AS ENVISIONED BY THE FINANCE MINISTER, THEN IT WILL NOT BE UNTIL 2002 OR 2003 THAT ZIMBABWE WILL RETURN TO AN ECONOMIC STATE OF HEALTH LAST SEEN IN 1997. IN OTHER WORDS, FIVE YEARS OF ECONOMIC GROWTH, AT THE VERY LEAST, HAVE BEEN WIPE OUT BY RECENT ACTIONS OF THE COUNTRY'S LEADERSHIP. WE ARE KEEPING OUR FINGERS CROSSED THAT THIS HALF-DECADE BLACKOUT IS NOT EXTENDED FURTHER BY ANY MORE ILL-CONCEIVED MOVES AND CAMPAIGNS THAT SERVE THE POLITICAL EXPEDIENCY AND ENTRENCHMENT DESIRES OF THE FEW, AT THE EXPENSE OF THE PRESENT AND FUTURE WELL-BEING AND SURVIVAL OF THE MANY, REGARDLESS OF WHAT RACE THEY MAY BE. WE HAVE, HOWEVER, NO EVIDENCE THAT ECONOMIC COMMON SENSE WILL PREVAIL OVER THE POLITICALLY EXPEDIENT "FAST-TRACKERS" NOW LEADING THIS ECONOMY INTO AN ABYSS. END COMMENT.

MCDONALD

CONFIDENTIAL

>